

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Gain-Sharing Subgroup

October 17, 2005

10:00 AM -12:00 PM

House Hearing Room C
Olympia

AGENDA

- (1) **Approval of Minutes**
- (2) **Discussion**
 - **Structure of HB 1324**
 - Identify Problem Areas with HB 1324
- (3) **Plan 1 Trade-offs**
- (4) **Rule of 90 - Members Impacted/Cost Characteristics**
- (5) **Stakeholder Input**

Subgroup Membership: (*voting members*) Representative Fromhold (chair), Senator Fraser, Senator Mulliken, Representative Crouse, Ms. Banks, Mr. Goeke, Ms. Matheson, Mr. Thompson; (*non-voting members*) Sophia Byrd, Jim Justin, Ken Kanikeberg, John Kvamme, Christopher Liu, Lynn Maier, Leslie Main, Ellie Menzies, Randy Parr, Wendy Rader-Konofalski, Cassandra de la Rosa.

Stakeholder groups are encouraged to appoint an individual representative from their organization as a non-voting member if interested.

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 753-9144. TDD 1-800-635-9993

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

***Senator Karen Fraser,**
Vice Chair

***Representative Bill Fromhold,**
Chair

***Leland A. Goeke**
TRS and SERS Employers

***Robert Keller**
PERS Actives

***Sandra J. Matheson,** Director
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

Glenn Olson
PERS Employers

Senator Craig Pridemore

Diane Rae
TRS Actives

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary.state@leg.wa.gov

GAIN-SHARING SUBGROUP DRAFT MINUTES

September 27, 2005

The Gain-Sharing Subgroup met in House Hearing Room C, Olympia, Washington on September 27, 2005.

Voting Members:

Senator Fraser, Vice Chair
Senator Mulliken
Representative Crouse

Elaine Banks
Leland Goeke
Sandra J. Matheson

Other SCPP member attending:

Doug Miller
Diane Rae

Non-Voting Members:

Sophia ByrdMcSherry
Jim Justin
John Kvamme

Lynn Maier
Leslie Main
Randy Parr

Senator Fraser, Chair, called the meeting to order at 4:35 PM.

(1) Attorney General's Opinion - Update

Matt Smith, State Actuary, reported on the "Attorney General's Opinion - Update."

(2) Gain-Sharing Costs for Plan 3 New Hires

Matt Smith, State Actuary, reviewed the "Gain Sharing Costs for Plan 3", "Rule of 90 with Age 60 Minimum" tables and the "Rule of 90 with Age 60 Minimum" bar charts. Discussion followed.

(3) Future Gain-sharing Subgroup Meetings

Elaine Banks recommended that the Gain-Sharing Subgroup meetings be held before the regular Full Committee meetings or the day before. Staff was instructed to poll the members on their availability for a meeting October 17th, the day before the regular October meeting.

The meeting adjourned at 5:40 PM.

***Elaine M. Banks**
TRS Retirees

Representative Barbara Bailey

Lois Clement
PERS Retirees

Representative Steve Conway

Representative Larry Crouse

***Senator Karen Fraser,**
Vice Chair

***Representative Bill Fromhold,**
Chair

***Leland A. Goeke**
TRS and SERS Employers

***Robert Keller**
PERS Actives

***Sandra J. Matheson, Director**
Department of Retirement Systems

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Victor Moore, Director
Office of Financial Management

Senator Joyce Mulliken

Glenn Olson
PERS Employers

Senator Craig Pridemore

Diane Rae
TRS Actives

J. Pat Thompson
PERS Actives

David Westberg
SERS Actives

*** Executive Committee**

(360) 786-6140
Fax: (360) 586-8135
TDD: 1-800-635-9993

Select Committee on Pension Policy
Gain Sharing Subgroup
HB 1324 Sectional

(September 13, 2005)

Summary of Bill

Repeals Plan 1 gain-sharing in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and replaces it with four contractually-guaranteed benefit increases:

- A 20-cent increase in the Annual Increase (sections 22 and 25),
- An extension of eligibility for the \$1,000 minimum benefit to members who have 20 years of service and have been retired for 25 years (sections 23 and 28),
- An annual increase of the \$1,000 minimum benefit by 3 percent per year (sections 23 and 28), and
- An extension of the Annual Increase to all members retired for one year in the year that they turn 66 (sections 24 and 27).

Modifies Plan 3 gain-sharing:

- Removes future PERS and TRS Plan 3 gain-sharing distributions (section 10),
- Replaces the SERS Plan 3 gain-sharing distribution formula with an annual distribution to SERS Plan 3 member accounts of an initial \$10 per year of service that increases 3 percent per year (section 10),
- Creates a prospective modified "Rule of 90" retirement formula that permits PERS, TRS, and the School Employees' Retirement System (SERS) Plan 2 and 3 members with a combination of age and years of service of at least 90 to receive an unreduced retirement allowance beginning at age 60 (sections 1-6).
- Opens TRS and SERS Plan 2 as an option for new members, and repeals the statutes providing an annual opportunity to change employee contribution rates in TRS, PERS, and SERS Plan 3 (sections 7,8, and 14).

Establishes annual basic contribution rates in PERS, TRS, and SERS for the next four fiscal years, in place of biennial rates (sections 17 and 20).

Establishes minimum employer and state contribution rates for PERS, SERS, and TRS beginning in 2009 (sections 18 and 21).

HB 1324 is 52 pages long and contains 32 sections. The following is a brief description of the individual bill sections.

Section 1: Amends PERS 2 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 2: Amends PERS 3 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 3: Amends TRS 2 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 4: Amends TRS 3 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 5: Amends SERS 2 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 6: Amends SERS 3 retirement eligibility section, establishing the modified rule of 90 statutory provisions.

Section 7: Amends TRS 3 membership section, establishing the Plan 2/Plan 3 choice statutory provisions.

Section 8: Amends SERS 3 membership section, establishing the Plan 2/Plan 3 choice statutory provisions.

Section 9: Amends the definitions section in the Plan 3 gain-sharing chapter to clarify the definition of "Terminated Vested Member" and strikes the PERS and TRS definitions as they are no longer relevant.

Section 10: Amends the eligibility section of the Plan 3 gain-sharing chapter to limit the \$10 trade-off distribution to those in SERS membership on the effective date of the act and eliminates PERS and TRS Plan 3 gain-sharing.

Section 11: Decodifies Plan 3 gain-sharing section granting retroactive gain-sharing to SERS 3 members who transferred during the transfer window.

Section 12: Decodifies Plan 3 gain-sharing section granting retroactive gain-sharing to PERS 3 members who transferred during the transfer window.

Section 13: Amends the Plan 2 Contribution rates section (effective July 1, 2006), to clarify and remove gain-sharing references.

Section 14: Amends the contribution rate structure section of the Plan 3 Retirement System Contributions chapter by removing the annual option for members to change their contribution rate.

Section 15: New Section clarifying that the benefits established in the first 16 sections of the act are not contractual rights until the effective date of the act.

Section 16: New Section providing an effective date of July 1, 2007, for sections 1-14.

Section 17: New Section added to the funding chapter providing for a four-year phased-in contribution rate structure for PERS, SERS, and TRS.

Section 18: New Section added to the funding chapter providing for a minimum contribution rate structure in PERS, SERS, and TRS; and starting July 1, 2009, a minimum contribution rate floor with a target funded ratio of 125 percent to retire the unfunded actuarial accrued liability in PERS 1 and TRS 1.

Section 19: New Section decodifies unnecessary contribution rate section of the funding chapter.

Section 20: New Section provides for a July 1, 2005, effective date for section 17.

Section 21: New Section provides for a July 1, 2009, effective date for section 18.

Section 22: Amends the definition section of the TRS chapter to provide for a 20 cent increase in the "Annual Increase" amount for Plan 1.

Section 23: Amends the minimum benefits section for TRS 1 to provide a 3 percent annual increase in the \$1,000 alternative minimum and expands the coverage of the \$1,000 alternative minimum to include those with 20 years of service and retired 25 years.

Section 24: Amends the annual increase section for TRS 1 to allow those who have been retired at least one year by July 1, and who will reach age 66 within the same calendar year, to be eligible for the uniform increase.

Section 25: Amends the definition section of the PERS chapter (effective until July 1, 2006), to provide for a 20 cent increase in the "Annual Increase" amount for Plan 1.

Section 26: Amends the definition section of the PERS chapter (effective July 1, 2006), to provide for a 20 cent increase in the "Annual Increase" amount for plan 1.

Note: Sections 25 and 26 are both needed because of the implementation date of PSERS.

Section 27: Amends the annual increase section for PERS 1 to allow those who have been retired at least one year by July 1, and who will reach age 66 within the same calendar year, to be eligible for the uniform increase.

Section 28: Amends the minimum benefits section for PERS 1 to provide a 3 percent annual increase in the \$1,000 alternative minimum, and expands the coverage of the \$1,000 alternative minimum to include those with 20 years of service and retired 25 years.

Section 29: New Section repealing all sections in the Plan 1 gain-sharing chapter.

Section 30: New Section providing for an immediate effective date for sections 22-25 and sections 27-29.

Section 31: New Section providing for a July 1, 2006, expiration date for section 25.

Section 32: New Section providing for a July 1, 2006, effective date for section 26.

Select Committee on Pension Policy
HB 1324
Gain-sharing Trade-off Summary
(October 10, 2005)

Background

HB 1324 is a lengthy (52 pages) and complex bill (32 sections) encompassing benefit provisions in 7 distinct retirement plans. The bill seeks to eliminate both the Plan 1 and Plan 3 gain-sharing benefits and replace them with alternative benefits. In the deliberations on the value of the replacement benefits was the principle of certainty having greater value than uncertainty – gain-sharing benefits being uncertain in any particular year. As a result, the proposed benefits, across all affected systems in total, were about half the long-term actuarial value of gain-sharing.

Trade-off Issues

Because the bill seeks to trade away specific benefits for alternative benefits, it is necessary to analyze the balance in those proposed trade-off provisions. Informal advice from the Attorney General recommended keeping any trade within the same benefit provision.

Plan 1

The bill seeks to replace Plan 1 gain-sharing benefits with a one-time 20¢ increase in the Uniform increase amount. As gain-sharing is used to augment the Uniform increase amount, the trade-off is within the same specific benefit provision.

The Plan 1 \$1,000 alternative minimum benefit proposals, and the age standard for COLA eligibility are also generally cost-of-living benefit enhancements, generally in keeping with the AG's advice.

Plan 3

The bill's provisions replace Plan 3 gain-sharing distributions with a Plan 2/3 modified Rule-of-90 and TRS and SERS Plan 2/3 choice. This may be problematic as a Plan 3 benefit reduction is being used to enhance Plan 2 benefits and not within the same benefit provision.

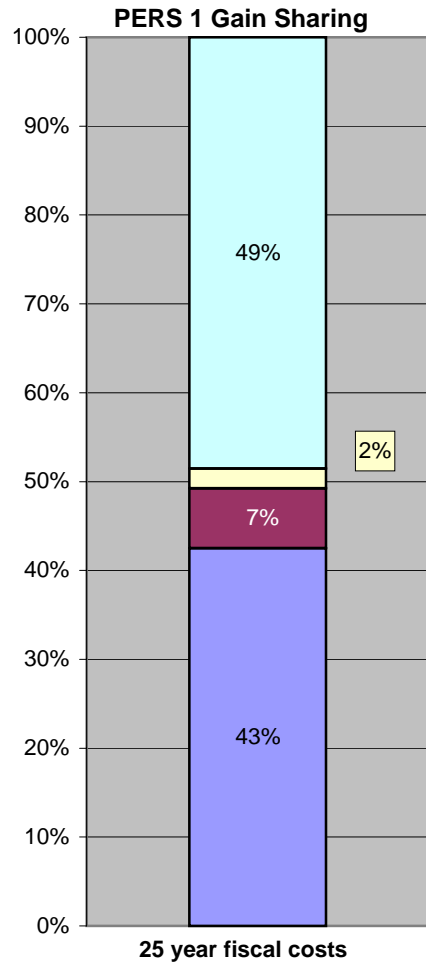
Plan 3 Gain-sharing provides benefits for all members with at least \$1,000 in their DC accounts; this includes active members, term-vested members, and retirees. The Rule-of-90 – combining years of age plus years of service – is a benefit more limited in scope, benefitting mostly new members and younger hires; and it is of no value to retirees or term-vested members. In addition, while a Rule-of-90 would be advantageous for certain members of PERS and TRS, it would be of little value to SERS members. The average SERS member is 47.4 years of age with 8.1 years of service. Many SERS members enter the system in mid- or late-career, and some even as a second career; most will not earn enough service credit to come close to Rule-of-90 requirements. In addition, many SERS members work part-time, further limiting their accrual of service credit and ability to benefit from a Rule-of-90.

The bill does keep a SERS 3 annual distribution of \$10 (indexed by 3% per year) multiplied by the member's service credit total on August 31 of the previous year. As Plan 3 gain-sharing is used for distributions to eligible member accounts, this would be keeping the trade-off within the same benefit provision.

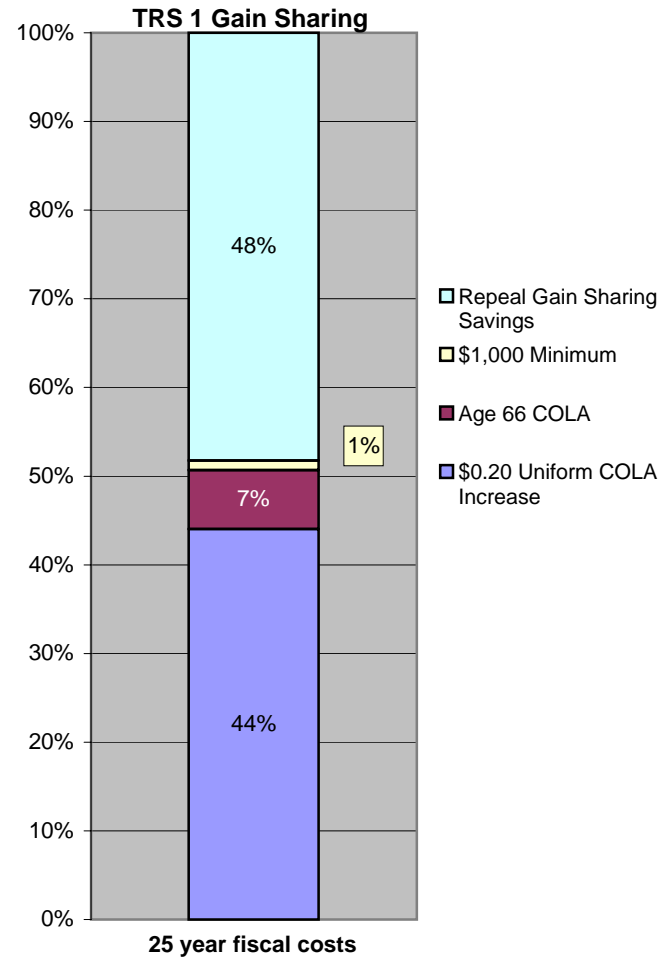
Summary

In regards to the Plan 1 trade-off provisions, HB 1324 adheres to the generally accepted principle of trading one benefit for similar benefits. The same cannot be said regarding the Plan 3 trade-off provisions; that Plan 3 benefits are reduced for the purpose of enhancing Plan 2 benefits and the benefits are largely outside the form of gain-sharing.

Select Committee on Pension Policy
Fiscal Analysis of HB 1324 - Plan 1



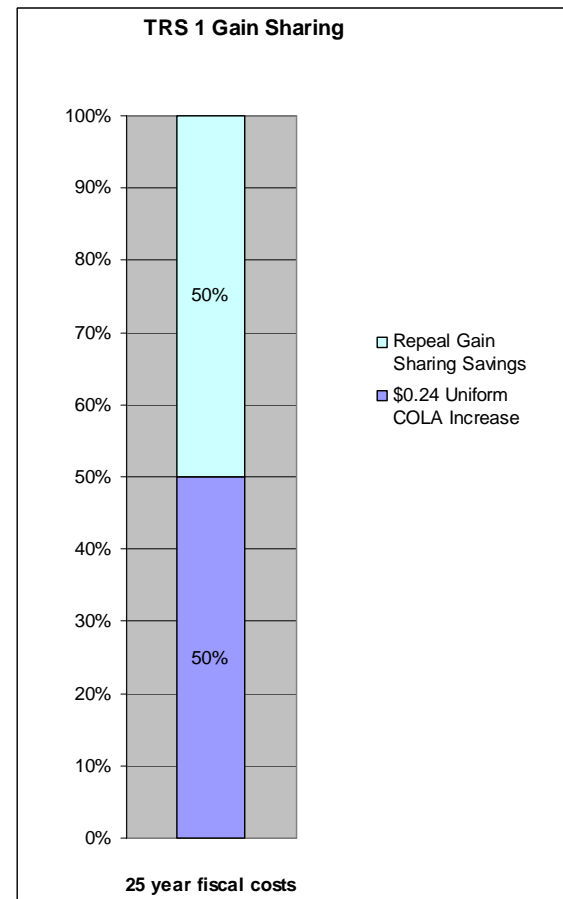
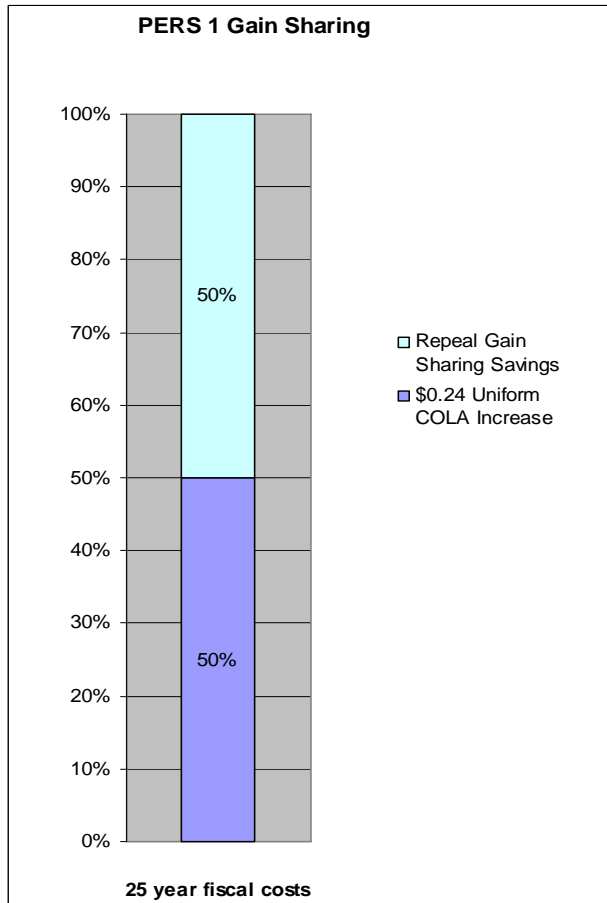
- Repeal Gain Sharing Savings
- \$1,000 Minimum
- Age 66 COLA
- \$0.20 Uniform COLA Increase



- Repeal Gain Sharing Savings
- \$1,000 Minimum
- Age 66 COLA
- \$0.20 Uniform COLA Increase

Select Committee on Pension Policy
Gain-Sharing Subgroup

Plan 1 Trade-offs - Uniform COLA Increase Only
Uniform COLA Increase at 50 Percent of Gain-Sharing Cost

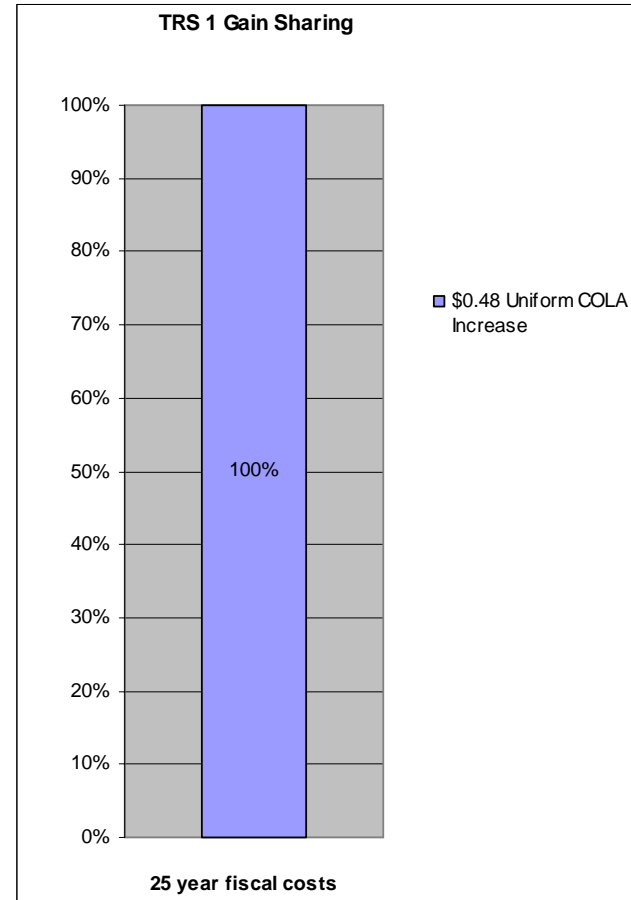
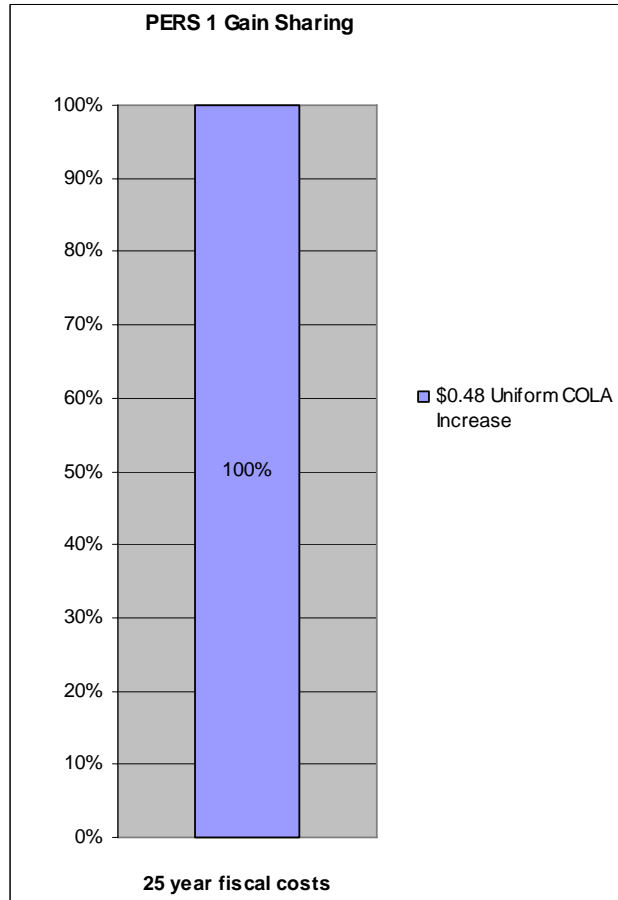


Select Committee on Pension Policy

Gain-Sharing Subgroup

Plan 1 Trade-offs - Uniform COLA Increase Only

Uniform COLA Increase at 100 Percent of Gain-Sharing Cost



Select Committee on Pension Policy
Gain-Sharing Subgroup
Attaining Rule of 90 Retirement Ages by Year

TRS

Age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016+	Total
54	0	0	0	0	0	0	0	0	0	0	0	0
55	0	0	0	0	0	0	0	0	0	0	1	1
56	0	0	0	0	0	4	50	36	26	23	647	786
57	0	0	0	0	10	91	199	207	155	108	6,577	7,347
58	0	0	0	5	54	151	174	157	130	141	7,191	8,003
59	0	0	7	48	112	137	110	104	103	167	5,156	5,944
60	0	2	37	72	107	99	74	100	128	149	4,025	4,793
61	1	41	80	89	67	71	96	87	103	107	3,211	3,953
62	18	43	82	62	56	74	82	107	113	138	2,756	3,531
63	65	46	29	41	71	92	76	93	117	124	2,483	3,237
64	52	35	29	53	74	83	90	127	149	144	2,379	3,215
65	111	87	122	187	269	373	508	641	814	899	11,951	15,962
Total	247	254	386	557	820	1,175	1,459	1,659	1,838	2,000	46,377	56,772

PERS

Age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016+	Total
54	0	0	0	0	0	0	0	6	11	17	384	418
55	0	0	0	0	0	0	20	73	118	105	2,123	2,439
56	1	0	0	0	0	22	100	180	163	120	4,784	5,370
57	1	0	0	0	45	155	266	241	215	179	8,518	9,620
58	0	0	0	45	143	247	194	206	212	257	9,069	10,373
59	1	0	37	146	234	238	179	199	228	295	9,006	10,563
60	1	47	101	217	216	226	212	264	312	325	8,696	10,617
61	20	137	188	207	216	164	205	279	318	305	8,294	10,333
62	94	124	185	156	186	213	275	290	277	337	7,777	9,914
63	205	139	114	180	189	249	271	268	309	349	7,549	9,822
64	230	101	114	128	230	268	227	280	306	350	6,866	9,100
65	737	454	701	824	1,097	1,391	1,679	1,939	2,156	2,452	36,428	49,858
Total	1,290	1,002	1,440	1,903	2,556	3,173	3,628	4,225	4,625	5,091	109,494	138,427

Select Committee on Pension Policy
Gain-Sharing Subgroup
Attaining Rule of 90 Retirement Ages by Year

SERS

Age	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016+	Total
54	0	0	0	0	0	0	0	1	3	3	45	52
55	0	0	0	0	0	0	2	6	13	19	422	462
56	0	0	0	0	0	5	11	23	16	17	767	839
57	0	0	0	0	1	25	16	23	18	24	1,192	1,299
58	0	0	0	6	18	27	24	28	33	26	1,242	1,404
59	0	0	3	16	21	26	31	32	29	38	1,373	1,569
60	0	4	21	33	23	33	35	32	40	50	1,668	1,939
61	3	25	35	43	40	29	49	76	60	72	2,199	2,631
62	20	28	58	52	60	65	83	82	79	88	2,930	3,545
63	53	58	43	65	83	88	90	84	131	136	3,583	4,414
64	77	36	50	61	96	104	97	132	145	163	4,002	4,963
65	276	178	269	378	446	610	760	949	1,080	1,252	20,539	26,737
Total	429	329	479	654	788	1,012	1,198	1,468	1,647	1,888	39,962	49,854

Select Committee on Pension Policy
Gain-Sharing Subgroup

Rule of 90 Retirement Ages

(October 4, 2005)

Rule of 90 Retirement Ages

Retirement age when first eligible for unreduced benefits after adding a Rule of 90 retirement age

Hire Age	Retirement Age	Number of Active Plan 2/3 Members in 2004			
		PERS	TRS	SERS	Total
18	54	1,345	0	232	1,577
20	55	3,687	32	647	4,366
22	56	7,691	3,623	1,093	12,407
24	57	10,309	8,799	1,359	20,467
26	58	10,486	6,871	1,481	18,838
28	59	10,604	5,240	1,717	17,561
30	60	10,531	4,365	2,222	17,118
32	61	10,137	3,777	3,145	17,059
34	62	9,720	3,284	3,993	16,997
36	63	9,504	3,217	4,717	17,438
38	64	9,007	3,167	5,124	17,298
40	65	45,406	14,397	24,124	83,927
Total		138,427	56,772	49,854	245,053

Hire Age	Retirement Age	Number of Active Plan 2/3 Members in 2004			
		PERS	TRS	SERS	Total
18	54	1%	0%	0%	1%
20	55	3%	0%	1%	2%
22	56	6%	6%	2%	5%
24	57	7%	15%	3%	8%
26	58	8%	12%	3%	8%
28	59	8%	9%	3%	7%
30	60	8%	8%	4%	7%
32	61	7%	7%	6%	7%
34	62	7%	6%	8%	7%
36	63	7%	6%	9%	7%
38	64	7%	6%	10%	7%
40	65	33%	25%	48%	34%
Total		100%	100%	100%	100%

October 14, 2005

From: Brian Pickering
10603 180th ST SE
Snohomish, WA 98296

To: Select Committee on Pension Policy
Att: Representative Bill Fromhold – Chair
PO Box 40914
Olympia, WA 98504-0914

Re: Gain-Sharing Subgroup

Dear Representative Fromhold:

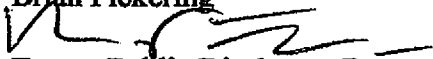
I wrote your predecessor Senator Fraser last Spring regarding my objection to the state delaying recognition of gain-sharing benefits. That letter has been incorporated in the subgroup's public record. Research Analyst Robert Baker responded to that letter and informed me that gain sharing was a non-contractual benefit. I in turn submitted a Public Disclosure Request to DRS. That request along with the Department's response is also attached. The response consists of a cover letter and twelve pages of documents.

When the State of Washington offered PERS Plan 2 members the option of forsaking that retirement plan in favor of Plan 3 it engaged in a deliberate, broad and lengthy educational effort. PERS 2 members received written material and had access to website information, videos and seminars that were given around the state. Nowhere in this educational campaign were members informed that gain-sharing was a non-contractual benefit as evidenced in the attached Public Disclosure Request response.

How ironic that the Attorney General office has a division of attorneys fighting this type of fraud on a daily basis; while one of the departments it represents engages in bait and switch tactics with its own employees. How is this situation any different than that of a car dealer that fails to disclose that a vehicle does not have an air bag or a catalytic converter? It is fraud by omission; offering gain-sharing to induce employees to join a retirement plan but not telling them that the state is not bound to adhere to the inducement.

If you or the other members of this committee can defend or support this deplorable action I would be much obliged to hear from you. I thought that the State of Washington had an institutional character that precluded something like this from happening. If this sordid mess finds its way to the judicial system I wouldn't expect a vigorous defense from Assistant Attorney Generals that are Plan 3 members.

Sincerely,
Brian Pickering



Enc: Public Disclosure Request 8/30/5
Public Disclosure Request response 10/12/5

August 30, 2005

From: Brian Pickering
10603 180th ST SE
Snohomish, WA 98296

To: Department of Retirement Systems
Att: Public Disclosure Officer Patti Lee
PO Box 48380
Olympia, WA 98504-8380

Dear Ms. Lee:

This letter constitutes a Public Disclosure Request as promulgated by Chapter 42.17 RCW. Please provide the following information accordingly.

Any notes, memos, e-mails, video or audio recordings, publications, brochures, booklets, presentation material, educational material or any other document or record from any source that relates to, informs, or advises any Department of Retirement Systems employee, or contractor or appointee, or any PERS Plan 2 or PERS Plan 3 member that the gain sharing provision of PERS Plan 3 is a non-contractual benefit.

Thank you for your attention to this matter. I can be reached at (425) 489-1780 if you have any questions.

Sincerely,

Brian Pickering

cc: Select Committee on Pension Policy



STATE OF WASHINGTON

DEPARTMENT OF RETIREMENT SYSTEMS

P.O. Box 48380 • Olympia, WA 98504-8380 • (360) 664-7000 • Toll Free 1-800-547-6657

October 12, 2005

Brian Pickering
10603 180th St SE
Snohomish WA 98296

Re: Public Disclosure Request

Dear Mr. Pickering:

The enclosed documents constitute the Department of Retirement Systems' (DRS) response to your August 31, 2005 public disclosure request. Also enclosed is an exemption log describing two documents that may be responsive to your request but are exempt from disclosure as set forth in the log.

Please contact me at (360) 664-7298 or via e-mail at pattil@drs.wa.gov if you have any questions.

Sincerely,

Patti Lee
Public Records Officer

Enclosure



DRS Exemption Log
Brian Pickering PDR 05-036

# of Pages	Document	Exemption
2	E-mail dated September 23, 2004, from Evelyn Lopez, Assistant Attorney General, to John Charles, Director, DRS, relating to gain sharing as a contractual right	Withhold document. Attorney-Client Privilege RCW 42.17.260 RCW 5.60.060(2)(a) RCW 42.17.310(1)(j)
4	E-mail dated September 28, 2004, from Evelyn Lopez, Assistant Attorney General, to Maureen Westgard, Deputy Director, and John Charles, Director, DRS, relating to potential legislative changes to gain sharing	Withhold document. Attorney-Client Privilege RCW 42.17.260 RCW 5.60.060(2)(a) RCW 42.17.310(1)(j)

Gain sharing

Gain sharing payments are made in January of even-numbered years.

- **PERS Plan 3 Defined Contribution account**
 - Payments made if the earnings from the PERS Plan 2/3 combined trust fund average more than 10 percent over a four-year period
 - Member must meet eligibility requirements
 - Gain sharing is not guaranteed; it depends upon market conditions

RCW 41.31A.030 Retroactive extraordinary investment gain -- Credited to member accounts -- Persons eligible -- Calculation of amount -- Contractual right not granted.

(1) On March 1, 2001, the member account of a person meeting the requirements of this section shall be credited by the 1998 retroactive extraordinary investment gain amount and the 2000 retroactive extraordinary investment gain amount.

(2) The following persons shall be eligible for the benefits provided in subsection (1) of this section:

(a) Any classified employee who earned service credit during the twelve-month period from September 1st to August 31st immediately preceding the distribution and who transferred to plan 3 under RCW 41.35.510; or

(b) Any classified employee in receipt of a benefit pursuant to RCW 41.35.680 and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(c) Any classified employee who is a retiree pursuant to RCW 41.34.020(8)¹ and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510; or

(d) Any classified employee who has a balance of at least one thousand dollars in his or her member account and who has completed five service credit years by September 1, 2000, and who transferred to plan 3 under RCW 41.35.510.

(3) The 1998 retroactive extraordinary investment gain amount shall be calculated as follows:

(a) An amount equal to the average benefit per year of service paid to members of the teachers' retirement system plan 3 pursuant to section 309, chapter 341, Laws of 1998 in 1998;

(b) Distributed to persons eligible for the benefit provided in subsection (1) of this section on the basis of their service credit total on August 31, 1997.

(4) The 2000 retroactive extraordinary investment gain amount shall be calculated as follows:

(a) An amount equal to the average benefit per year of service paid to members of the teachers' retirement system plan 3 pursuant to section 309, chapter 341, Laws of 1998 in 2000;

(b) Distributed to persons eligible for the benefit provided in subsection (1) of this section on the basis of their service credit total on August 31, 1999.

(5) The legislature reserves the right to amend or repeal this section in the future and no member or beneficiary has a contractual right to receive this distribution not granted prior to that time.

¹ RCW 41.34.020(8) "Retiree" means any member in receipt of an allowance or other benefit provided by this chapter resulting from service rendered to an employer by such member.

HOUSE BILL ANALYSIS

HB 2491

Brief Description: Sharing extraordinary investment gains.

Background: Assets invested in the retirement funds have been experiencing growth in recent years substantially above the assumed long-term rate of 7.5 percent. Over the 1997 interim, the Joint Committee on Pension Policy (JCPP) studied ways of using these better-than-expected returns to fund benefit increases. As a result of this work, the JCPP recommended several gain sharing bills to the 1998 Legislature.

Under current law, better-than-expected investment returns are held in the pension trust funds. The pension contribution rates paid by employers (including the state) on TRS and PERS Plan I employees' salaries have been adjusted downward when earnings are higher than expected. If earnings were to fall below the projected level of 7.5 percent, the employer contribution rate would be adjusted upward.

TRS and PERS Plan I are defined benefit plans, which means that members receive a formula-driven benefit at retirement. Members of TRS and PERS Plan I pay 6 percent of salary toward the cost of their benefits. TRS and PERS Plan I are closed retirement systems that experienced chronic under-funding in the 1970s and 1980s. Under current law, PERS and TRS Plan I employer contribution rates are set at the level percentage of pay necessary to pay off the total costs of the systems by July 1, 2024. The current unfunded liability in TRS and PERS Plan I is \$5.2 billion.

In 1993, pension contribution rates were adjusted downward due to higher-than-expected investment gains and faster-than-expected membership growth. As a result of the decrease in employer contribution rates, pension contributions made from the General Fund-State for the PERS, TRS and LEOFF systems were \$49.4 million lower than they would have been had the rates not been decreased. That same year, legislation was enacted providing benefit increases for members of PERS, TRS and LEOFF. The increase in the employer contribution rates due to the new benefits raised the General Fund-State pension contributions during the 1993-95 biennium by \$27 million. Another \$25 million was transferred from the General Fund-State to the Budget Stabilization Account. In 1994, \$25 million was transferred from the Budget Stabilization Account to the newly created Pension Funding Account.

Summary: When earnings on the pension funds average more than 10 percent over four years, half the earnings over 10 percent will be used to increase benefits, the other half will be used to accelerate the amortization of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) Plan I costs. The first gain sharing will occur July 1, 1998, and will fund the present actuarial value of a "pop-up" benefit, as well as an increase in the Uniform COLA. Thereafter, gain sharing will occur January 1 of each even-numbered year whenever the average earnings on the pension funds over the previous four years are more than 10 percent. After the initial July 1, 1998, gain sharing, all subsequent gain sharing will take the form of an increase in the Uniform COLA.

The Pension Funding Account will also be used in the initial gain-sharing distribution to pay for increased benefits for PERS/TRS Plan 1.

The Legislature reserves the right to repeal the gain sharing provisions of the bill.

Increased Benefits

Retroactive "Pop-up"

Current law: A retiree under the Judicial Retirement System, LEOFF II, TRS Plans I, II or III, or PERS Plans I or II, can choose a lower monthly benefit in exchange for his or her spouse receiving a benefit after the retiree's death. This is called a survivor option. Members of the pension systems who retired after January 1, 1996, receive a "pop-up" in their benefit if their spouse dies first; that is, the benefit the retiree receives a "pop-up" to the level the benefit would have been if they had not chosen the survivor option. (Surviving spouses of retired LEOFF Plan I members automatically receive the same benefit the retiree received during his or her lifetime, so the "pop-up" is irrelevant to the LEOFF Plan I system.)

HB 2491: Provides the same "pop-up" to retirees who retired before 1996. The bill provides the "pop-up" to members of the Judicial Retirement System, the Law Enforcement Officers' and Fire Fighters' retirement system Plan II, TRS Plans I and II, and PERS Plans I and II. (Because there are no TRS III members who retired before 1996, the current "pop-up" provisions already cover all TRS III retirees.)

Increase Uniform COLA

Current law: PERS and TRS Plan I retirees receive an annual cost-of-living adjustment, called the Uniform COLA, beginning at age 66. The current COLA is 63 cents per month, per year of service.

HB 2491: Provides that every two years, half of any gain sharing amounts will be used to increase the Uniform COLA. The increase in the Uniform COLA in 1998 will be about 10 cents. The initial 1998 gain-sharing distribution is reduced by the amount necessary to fund the full actuarial-present value of the retroactive "pop-up" for TRS and PERS retirees.

The Distributions

- Long-term historical average rate of return: 8.5 percent
- Average rate of return for last four years: 13.7 percent
- Current extraordinary gain as defined by bill: 3.7 percent

- **Estimated Present Value Cost of Benefit Increases:**
 - July 1, 1998: \$314 million
 - Retroactive Pop-Up Cost: \$56.8 million
 - Increase Uniform COLA: \$257 million
 - January 1, 2000
 - Increase Uniform COLA: \$210 million

- **Estimated increase in Uniform COLA:**
 - July 1, 1998: 10 cents per month per year of service
 - January 1, 2000: 8 cents per month per year of service

- **Sources of payment for the present value cost of benefits:**
 - July 1, 1998:
 - Pension Funding Account: \$25 million
 - Gain Sharing: \$289 million
 - January 1, 2000:
 - Gain Sharing: \$210 million

- **Unfunded Liability Payments**
 - July 1, 1998:
 - \$289 million
 - Years cut from amortization period: 1.2 years (to March 2023)
 - January 1, 2000
 - \$210 million
 - Years cut from amortization period: 1 (to March 2022)

- **Increase in GF-S pension contributions next biennium: about \$52 million**

Effective Date: Ninety days after adjournment of session in which bill is passed.

Fiscal Note: Available.

Individual State Agency Fiscal Note

Bill Number: HB 1426	Title: Annualized Gain Sharing	Agency: Dept. of Retirement Systems/124
--------------------------------	--	---

Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Fund	Fiscal Year 02	Fiscal Year 03	2001-03 Total	03-05 Biennium	05-07 Biennium
GF-State			0		
GF-Federal			0		
Other (specify)			0		
			0		
			0		
Total	0	0	0	0	0

Estimated Expenditures from:

	Fiscal Year 02	Fiscal Year 03	2001-03 Total	03-05 Biennium	05-07 Biennium
FTE Staff Years	0.0		0.0		
Fund					
GF-State			0		
GF-Federal			0		
Other (specify)			0		
DRS Expense Account (600)	0		0		
			0		
Total	0	0	0	0	0

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date:
Agency Preparation: Jeff Wickman	Phone: 664-7303	Date:
Agency Approval:	Phone:	Date:
OFM Review:	Phone:	Date:

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Currently, RCW 41.31.010 provides for the sharing of extraordinary investment gains with Plan 1 retirees of the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). Gain sharing is included as a cost of living increase in the monthly retiree allowance in January of even numbered years when the average investment return on trust fund assets over the previous four state fiscal years exceeds 10%. RCW 41.31A.020 also provides for the sharing of extraordinary investments gains with Plan 3 members of the PERS, TRS and the School Employees' Retirement System (SERS) when the average investment return on trust fund assets over the previous four state fiscal years exceeds 10%. This bill makes the following changes:

Section 1 creates a new gain sharing payment that would be provided in odd numbered years. PERS and TRS Plan 1 retirees would receive gain sharing in odd numbered years if average investment returns over the previous four year period exceeded 10%. The Department of Retirement Systems (DRS) would provide the gain sharing payments in the same form as the retirees' regular disbursement either as a separate check or a separate electronic fund transfer (EFT). PERS and TRS Plan 1 retirees would be eligible to begin receiving lump sum gain sharing payments, if any, in January 2005. Gain sharing payments, if any, in January of even numbered years would continue to be provided in the form of a cost of living increase.

Section 1 also defines how odd year lump sum gain sharing payment will be determined. PERS and TRS Plan 1 retirees will receive 1 point for each year of service credit and 2 points for each year of retirement. The total amount of extraordinary investment gains available for payment will be divided by the total number of points calculated for all eligible PERS and TRS Plan 1 retirees. This calculations will produce a per point value. A retiree's specific gain sharing payment will be determined by multiplying the per point value times the number of individual points calculated for the retiree.

Section 2 reserves the legislatures right to amend or repeal either the even year post retirement gain sharing increase or the new odd year lump sum gain sharing increase.

Section 3 creates a new gain sharing payment that would be provided in odd numbered years for PERS, TRS and SERS Plan 3 retirees. Plan 3 retirees would receive gain sharing payments in odd numbered years if average investment returns over the previous four year period exceeded 10%. DRS would provide the gain sharing payment in the same form as the retirees' regular disbursement either as a separate check or a separate electronic fund transfer (EFT). Plan 3 retirees would be eligible to begin receiving lump sum gain sharing payments, if any, in January 2005. Gain sharing payments, if any, in January of even numbered years would continue to be provided in lump sum payment to the members defined contribution account.

Section 4 establishes an effective date for this of January 1, 2004.

II. B - Cash Receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

No impact.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Administrative Assumptions

- The act effects PERS and TRS Plan 1 retirees and defined benefit retirees of PERS, SERS and TRS Plan 3.
- DRS will calculate total points as provided in Section 1 and 3 of the bill and provide that total to the Office of the State Actuary. Rules will be implemented to determine the calculation of points for total years of retirement. Total years of service credit will be based on the existing accumulated total at the time of retirement.
- The Office of State Actuary will provide DRS with the per point value.
- DRS will multiply the per point value times the individual retirees point value to determine the amount of the sharing payment. The first possible gain sharing payment distributed under the provisions of this act would be in January 2005.
- Current processes and systems used to apply the gain sharing payments will require modification to run on an odd numbered year basis.
- The same eligibility rules that apply to TRS Plan 1 and PERS Plan 1 retirees receiving gain sharing payments in January of even-numbered years apply to this act.
- Odd year lump-sum gain-sharing payments, if any, will be delivered in January in the form of a separate check to the retiree or a separate electronic fund transfer.
- Even year gain sharing payments are not impacted by this bill.
- No retroactive odd year gain sharing payments will be provided. The bill is prospective only.

Benefits Unit

Implementation of this bill requires modification to DRS' integrated information systems. An Information Technology Application Specialist and Retirement Services Analyst will work with the program developers to identify system related business requirements and participate in user acceptance testing of the required system changes.

In order to implement the proposal, the following activities will be needed:

- Participate in the business requirement definition for the Member Information and Benefits systems.
- Conduct staff training.
- Conduct user acceptance testing of system modifications.
- Update the online operations manual.
- Assist with the update of the member handbooks.
- Create agency WACs.

Retirement Services Analyst 3 - 75 hours

\$1,913

Information Technology Application Specialist 4 - 126 hours

\$4,319

Total Estimated Benefits Unit Costs

\$6,232

Member/Retiree Communications

The member publications will need to be updated to educate members about the new gain sharing. The updated publications will be placed on the DRS Web site. Members will be notified of changes via the *Retirement Outlook*.

Tasks required to implement this act include:

- Notify members and employers of the changes via standard agency communications.
- Insert notification flyer in PERS *New Member Plan Choice* booklet. \$ 250
- Insert notification flyer in PERS/TRS Plan 1 and PERS/SERS/ TRS Plan 3 Handbooks. \$ 1,250
- Update the Web sites. \$ 2,000
- Update PERS *New Member Plan Choice* video. \$ 14,740

Public Information Officer 2 - 200 hours \$ 4,968

Total Estimated Communications Costs \$ 23,208

Automated Systems

The Member Information System (MIS) and Benefits System will need modification in the following areas:

- Establish gain-sharing payments as a one-time lump sum payment in odd numbered years beginning January 2005.
- Create programs to calculate total points based on years of service and years of retirement for all eligible PERS and TRS Plan 1 retirees and defined benefit retirees from PERS, TRS and SERS Plan 3.
- Create programs to calculate individual point totals per Plan 1 and Plan 3 retirees.
- Create programs to calculate per point values provide by OSA time the individual point totals.
- Develop process to generate letters to eligible retirees explaining the gain sharing disbursement.
- Create test plans and conduct user acceptance testing.

Total Estimated Cost For Systems Modifications

Programmer time of 472 hours at \$95 per hour \$ 44,840
DIS cost* of \$500 per week per programmer (for 12 weeks) \$ 6,000
\$ 50,840

*cost for mainframe computer processing time and resources at the Department of Information Services

Ongoing Information Systems costs associated with annual production of gain sharing

Providing annual gain sharing payments will create ongoing systems related costs in the following areas:

- Accumulation of data to provide OSA for calculation of the gain sharing amounts.
- Annual process to disburse gain sharing payments and generate letters to eligible PERS and TRS Plan 1 retirees.

Total Programming Costs

Programmer time of 80 hours at \$95 per hour every two years \$ 7,600
DIS cost* of \$500 per week per programmer (for 2 weeks) every two years \$ 1,000
Printing and mailing of letters every two years \$ 22,400
Printing and mailing of remittance advice every two years \$ 27,680

Estimated Ongoing Systems Modification Costs**\$ 58,680**

*cost for mainframe computer processing time and resources at the Department of Information Services

ESTIMATED TOTAL COST TO IMPLEMENT THIS BILL:

	<u>2003-05</u>	<u>2005-07</u>	<u>2007-09</u>
BENEFIT UNIT	\$ 6,232		
COMMUNICATIONS	\$ 23,208		
AUTOMATED SYSTEMS	\$ 109,520	\$ 58,680	\$ 58,680
ESTIMATED TOTAL COSTS	\$ 138,960	\$ 58,680	\$ 58,680

Part III: Expenditure Detail**III. A - Expenditures By Object Or Purpose**

	Fiscal Year 02	Fiscal Year 03	2001-03 Total	03-05 Biennium	05-07 Biennium
FTE Staff Years	0.0		0.0		
Salaries and Wages	0		0		
Employee Benefits	0		0		
Personal Service Contracts			0		
Goods and Services	0		0		
Travel			0		
Equipment			0		
Grants and Subsidies			0		
Debt Service			0		
Interagency Reimbursement			0		
Total	0		0		

III. B - FTE Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA.

Job Classification	Salary	FY 02 FTEs	FY 03 FTEs	2001-03 Total	2003-05	2005-07
				0.0		
				0.0		
Total		0.0		0.0		

III. C - Expenditures By Program (optional)

Program	Fiscal Year 02	Fiscal Year 03	2001-03 Total	03-05 Biennium	05-07 Biennium
Total					

Part IV: Capital Budget Impact

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods.

No impact.

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

No rules will be required.